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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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GLOBAL PREVALENCE OF IFRS WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

Trade and commerce have been a part of human existence since time immemorial. People realised the importance of exchange & communication for survival and growth that gradually made way for 'Globalisation'. Accounting was discovered as the universal language of business but accounting practices have differed considerably across nations depending upon their economic, legal and political environment. Post world war-II era saw growth in cross border capital flows and harmonisation of international accounting standards was emphasized. In an effort by industrialized nations (Canada, US, and UK) to study the discrepancies in accounting practices across regions, International standard setting process was initiated with the publication of International accounting standards(IASs) issued by the International Accounting Standards Committee (IASC), a body established in 1973. It was reorganized as the International Accounting Standards Board (IASB) in 2001. IFRS are issued by IASB in the public interest to put a financial reporting system in place which is sound, well-coordinated, robust, extensively applicable and enables informed decision making. "They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide" (Ball, 2006). EU became the first one to adopt IFRS in 2005 with the intention of making markets competitive and accounts accessible across the continent. This move by EU became a milestone and soon spread globally. Currently, about 120 countries use IFRS in some way, converged or adopted. India is one amongst the nations which decided to converge with IFRS in 2011, which due some hurdles could not be implemented as planned. Recently, MCA through notification dated 16 February 2015 has finally issued the Companies (Indian Accounting Standards) Rules, 2015 (Rules) which lay down a roadmap for Ind AS adoption. The aim of this paper is to understand why is IFRS important, to focus on IFRS implementation plan in India and its impact, to figure out the opportunities and challenges specific to our economy and to analyse the International experience of IFRS in select countries. This study is largely based on a detailed literature review of the published theoretical and empirical research using reliable secondary sources.

KEYWORDS

IFRS, IASB, harmonisation, Convergence, Ind AS.

BACKGROUND

As the business world became more global, regulators, investors, large companies and auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain (AICPA). Generally accepted accounting principles provide us the norms of accounting policies and practices by way of guidelines directing us as to how the events that affect the financial statements should be dealt with and presented in final accounts. With every country using its own version of GAAP, it becomes difficult to deal with multiple standards for businesses and investors planning to grow internationally. In order to analyse & compare the financial reports of multiple entities accurately, it is extremely important that the companies are following the same set of accounting standards while preparing their financial reports. The basic idea that lies behind the need to have universal framework of accounting and financial reporting standards was to ensure a smooth, efficient and reliable global marketplace for everyone across the world. By ensuring relevance, completeness, neutrality, verifiability, consistency, comparability and transparency of financial statements, unified business language brings about a qualitative change in the accounting information reports. This in turn strengthens the confidence and empowers investors and other users of accounting information.

Since 2001, the IASB has majorly transformed the world map of company financial reporting in a short span of time. But it was the International Accounting Standards Committee (IASC), during its 27 years from 1973 to 2000 that set the stage for the IASB. Based in London, IASC was an independent private sector body formed to achieve uniformity in accounting principles around the globe. Founded by the professional bodies of USA and its 9 other powerful counterparts including Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, IASC Board published and formulated a substantial body of Standards, Interpretations, a Conceptual Framework, and promoted its acceptance by many nations in developing their national accounting standards. In 2001, restructuring of IASC was undertaken and renamed as the International Accounting Standards Board (IASB). Objective of IASB was to design "a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions" (IFRS.org). These standards are called as **IFRS**.

Later in 2002, FASB, the American accounting board and IASB entered into "Norwalk agreement" embarking on a partnership for working together to improve and converge the U.S. generally accepted accounting principles (GAAP) and IFRS. "The globalization of accounting standards as seen through the proliferation of IFRS worldwide is one of the most important developments in corporate governance over the last decade" (Ramanna, 2013). Subsequently, in 2005 the European Union (EU) adopted a legislation which required all listed companies to prepare their consolidated financial statements using IFRS, becoming the first major capital market to implement IFRS. KPMG (2000) reported in a survey that the reasons for European companies to switch from national standards to international standards include (1) the possibility of increasing the availability of capital and lowering its cost; (2) the perceived high quality of IFRS; and (3) preferences of institutional investors and analysts. (Hope et. al., 2006)

UNDERSTANDING IFRS

IFRS embark identification, measurement, presentation and disclosure requirements associated with transactions and events which are significant and vital in financial statements that are used for general purpose (Mishra &Aggarwal, 2014). They are a set of rules that tell companies what they need to show in their accounts and how the numbers are to be calculated. They are principle based standards developed and governed by the 12-members board of IASB. International Financial Reporting Standards comprise of:

- International Financial Reporting Standards (IFRS) - standards issued after 2001
- International Accounting Standards (IAS) - standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001
- Standing Interpretations Committee (SIC) - issued before 2001

IFRSs provide accounting treatments of various events and transactions based on the economic substance rather than their legal form. This concept entails the use of judgment on the part of the preparers of the financial statements in order for them to derive the business sense from the transactions and events and to

present them in a manner that best reflects their true essence. The application of this approach may result into events and transactions being presented in a manner different from their legal form. Nevertheless, it's central to the faithful representation of financial information of an entity.

The Board has no authority to impose those standards but promote its rigorous application across the world. It aims at providing financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt financial instruments, and providing or settling loans and other forms of credit.

Principle based- Based upon principles, IFRS allows management to use greater discretion and flexibility when preparing a company's financials unlike U.S GAAP which is a hard set rule based standard. With a principle based framework there is a potential for different interpretations of similar transactions, which could lead to extensive disclosures in the financial statements. Thus, IFRS being principle-based standards are potentially more difficult to circumvent (Ahmed et al., 2013).

Convergence vs Adoption- With the widespread popularity of IFRS in more than a 100 countries, not all countries could immediately adopt IFRS due to cultural, legal, or political obstacles. Some countries decided to converge their local standards with IFRS including India and China. There exists a significant difference between adoption and convergence which the users need to understand. With Convergence, a nation decides to bring its accounting standards to a point where the amounts reported in the financial statements are the same as in IFRS financial statements. On the other hand, implementing IFRS in full compliance with the guidelines issued by IASB is referred to as adoption. Recently, one of the trustees of IASB emphasised convergence as not necessarily an objective in itself but a means to achieve adoption of IFRSs.

CONCEPTUAL FRAMEWORK OF FINANCIAL REPORTING

In financial reporting, a conceptual framework is a theory of accounting prepared by a standard-setting body against which practical problems can be tested objectively. The Conceptual Framework project of IASB aims at improving financial reporting through providing a complete, clear and updated set of concepts. It serves as a guide to the Board in developing future IFRSs and resolving accounting issues that are not addressed directly in an International Accounting Standard or International Financial Reporting Standard or Interpretation. In the absence of a Standard or an Interpretation that specifically applies to a transaction, management is required to use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable.

Conceptual Framework for Financial Reporting introduced as a joint project of IASB and FASB in 2010 mainly addresses:

(a) The objective of financial reporting;
(b) the qualitative characteristics of useful financial information:
- Fundamental- Relevance and Faithful Representation
- Enhancing- Comparability, verifiability, timeliness and understandability.

(c) the reporting entity
(d) the definition, recognition and measurement of the elements from which financial statements are constructed; and
(e) concepts of capital and capital maintenance.

This project however, was restarted in 2012 by IASB alone to fill the gaps in the existing framework.

INDIAN CASE

Prior studies have shown that quality of financial information disclosed in India before globalization was way inferior to the information disclosed in United States and United Kingdom. The Indian firms only used to make bare minimum disclosures required as per the rules and regulations governing them. Only the firms which were mandatorily supposed to furnish published reports under the law (mainly the public sector entities) would provide better information of its state of affairs. Very few privately owned firms used to make voluntary disclosure of their financial information (Narayanswamy, 2007).

The inaugural of economic reforms and globalization in the late 1980s led the process of changes in financial reporting methods. These reforms and improvement encouraged foreign companies to invest in Indian economy (Mishra & Aggarwal, 2014). Post globalisation, constant efforts have been put and initiatives been taken by our standard setting and regulatory authorities like ICAI, SEBI, RBI etc. to bring our economic activities at par with international level.

Accounting Standards board (ASB) is the body constituted by ICAI in 1977 to formulate accounting standards keeping in view the applicable statutes, customs and regulations in Indian business environment. Recognizing the need to harmonise with the international developments taking place on a fast pace, ICAI announced in 2007 to converge with IFRSs commencing from 1st April 2011. This step to bring our standards at par with the leading global standards was expected to put India in a better global rank on corporate governance and transparency in financial reporting. For this purpose, ICAI with approval of NACAS (committee setup by MCA) introduced new accounting standards converged with IFRS, also known as ***Ind AS***. However, due to the existence of certain carve-outs or deviations from IFRS, these standards would not be considered as equivalent to IFRS. A carve out essentially means that certain requirements of an accounting standard under IFRS will not be adopted. Even though the carve-outs are relatively minor, there are certain mandatory carve-outs, which may prevent companies from being able to state dual compliance with IFRS as per the IASB.

The initial deadline for implementation of Ind AS which applied to all listed companies could not be timely met owing to complex Indian legal and regulatory structure. Smooth and successful transition to IFRS also requires corresponding updates and changes in various statutes namely Companies Act, Income Tax Act, Banking Regulation Act, Insurance Act, as well as rules framed by regulatory bodies like RBI, SEBI, IRDA. Furthermore, clear understanding of standards is still required to be built amongst companies, professionals and investors for correct application and usage of IFRS in order to increase reliability and transparency of their financial statements. This prominently can be attributed to the delay in effectively imbibing IFRS into our system.

A latest announcement regarding implementation of revised roadmap of Ind AS was made by MCA in January 2015 which shall be applicable in phases as follows.

TABLE 1

	Phase I	**Phase II**	**Voluntary adoption**
Year of adoption	FY 2016 – 17	FY 2017 – 18	FY 2015 -16 or thereafter
Comparative year	FY 2015 – 16	FY 2016 – 17	FY 2014 - 15 or thereafter
Covered companies:			
(a) Listed Companies	All companies with net worth >= INR500 crores	All companies listed or in the process of being listed	Any company could voluntarily adopt Ind AS
(b) Unlisted Companies	All companies with net worth >= INR500 crores	Companies having a net worth >= INR250 crores	
(c) Group Companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. *This may also impact fellow subsidiary companies while preparing CFS of the holding company.*		

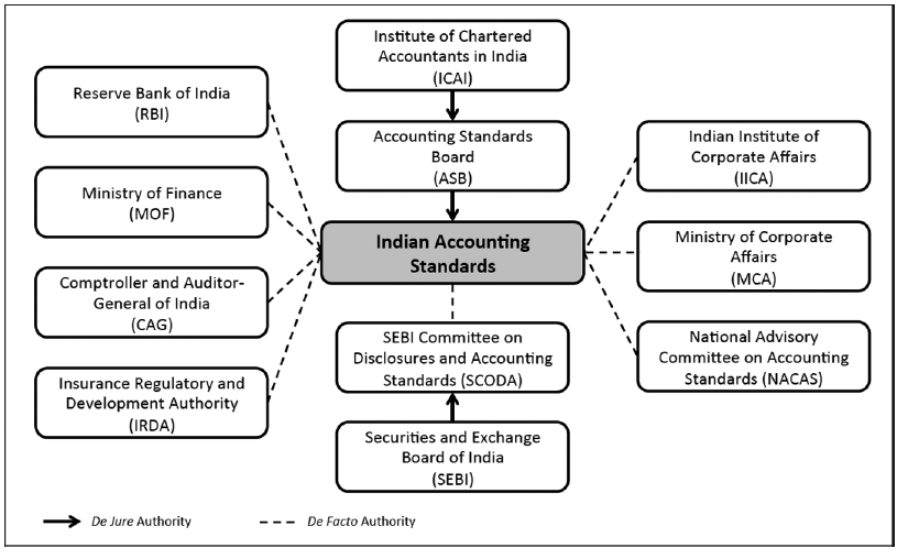
Courtesy: KPMG Report, Issue 2015/02

However, the insurance companies, banking companies and non-banking finance companies (NBFC) doesn't fall under the purview of this roadmap.

CHALLENGES AHEAD

India, despite substantial economic growth over the past decade, is still generally considered well behind China in international standings (The Economist, 2010). India's accounting landscape is dotted with an alphabet soup of regulatory agencies, professional organizations, think tanks and industry groups (as shown below). The high coordination costs and differing interests of these organizations make it difficult for an Indian lobbying position to have unified domestic support on the international stage. (Ramanna, 2013) This was one of the main reasons for delay in convergence with IFRS as planned.

TABLE 1



Courtsey: Ramanna, 2013

Even though the benefits of IFRS adoption are well recognised, the task of implementing it formally is going to be herculean task for India. The major challenges identified from the review of literature concerning IFRS adoption in India have been summarised as follows:

1. Difference in GAAP and IFRS: Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

2. Training and Education: Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application.

3. Legal and Regulatory considerations: Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

4. Taxation: IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

5. Fair value Measurement: IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

6. Re-negotiation of Contract: The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

7. Reporting systems: Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc. (Kaur & Kumar, 2014)

LITERATURE REVIEW

The purpose of this section is to summarise academic studies that address the adoption, implementation, importance and issues of IFRS in different nations.

-Why IFRS?

Shil et al. (2009) have strongly advocated the necessity to bridge the gap between varying accounting practices through harmonisation to ensure credibility in international market place. Their work states that harmonisation brings efficiency to market mechanisms by providing standardised information to worldwide regulators, policy makers, and other stakeholders. The survey found if that happens half of the European companies listed on US exchanges would consider de-listing because of Sarbanes-Oxley Act.

Another positive implication of IFRS for the world economy was found by Gordon et al. (2012) who in their empirical research paper revealed that the adoption of International Foreign Reporting Standards (IFRSs) by a country resulted in increased foreign direct investment (FDI) inflows. Their findings were based on the analysis of a panel data set of over 1300 observations covering 124 countries, for the period 1996-2009. The study provided important implications for researchers and policymakers that financial reporting standards can play a very important role in promoting FDI.

Hope et al. (2006) argued that IFRS represent a vehicle through which countries can improve investor protection and make their capital markets more accessible to foreign investors. A study based on a sample of 38 countries was conducted to examine a group of institutional factors that might influence a country's decision to adopt IFRS like securities laws on security offerings, anti-director rights and commitment to building a more accessible capital market to foreign investors. The findings suggested that countries with weak shareholder protection (i.e., poor disclosure rules and anti-director rights) were more likely to adopt IFRS than countries with strong shareholder protection.

-Impact on investors

Ball, Ray (2006) did an early analysis of the impact of IFRS on investors in his paper. His research suggests that IFRS will lead to efficiency in equity market valuation because of accuracy and availability of information on time. This would induce small investors in making informed decisions hence reducing the risk. However, on the down side fair value practice can bring many potential problems. One that fair valuation could lead to huge spreads causing uncertainty and noise in the market mechanism. It also gives the managers involved in trading an opportunity to manipulate fair value estimates in less liquid markets.

-Indian perspective (benefits and limitations)

A recent article of economic times dated 4/02/2016 covered a survey conducted by PwC on 100 top Indian companies in India that analysed the impact of IFRS converged accounting standards namely Ind-AS. The survey found that 55% respondents believed that adoption of Ind AS would have a potential impact of around 20% on the net worth and net income of the companies. Moreover, it was found that companies might face implementation challenges in areas especially financial instruments including derivatives, segment reporting practices etc.

An insight into procedure adopted by India to implement IFRS and its expected impact on corporate financial reporting environment has been provided by Jain, Pawan (2011) in his paper. The study emphasised on the perceived utility of IFRS adoption specifically with reference to Indian economy which were better access to global capital markets, easier global comparability, easy cross border listing, better quality of financial reporting, elimination of multiple reporting, and so on.

However, the author also listed few challenges in the path of transition to IFRS, such as creating awareness, training professionals, amending the existing laws, shifting to fair value base etc.

Jyothi & Satyanarayana (2016) made an attempt to study the Indian auditors' awareness in convergence from Indian GAAP to IFRS. Their study was based on primary data using convenience sampling technique in which 150 auditors were selected for study. The study revealed that there was a high significant difference of opinions on convergence to IFRS, date of implementation, roadmap framed by MCA among the different category of auditors. Overall, the study revealed that the transition to IFRS would not be a swift and painless process unless ICAI takes proper steps to organize conference, workshops and other awareness programs in order to create awareness among the CAs and auditors regarding the IFRSs.

An unconventional view of IFRS impact was presented by Bhattachargee & Rudra (2012), who conducted an empirical study based on sample of 67 private sector companies selected from BSE 100 companies exclusively of the banking and financial sector. Its findings suggested a rather contradictory result which indicated that firms adopting IFRS were unable to control earnings management.

-International experiences of IFRS

Daske et al (2008) provided an early evidence on the capital-market effects around the introduction of mandatory IFRS reporting in 26 countries around the world, taking data of the period from 2001-2005. This study found that, on an average, market liquidity increased around the time of the introduction of IFRS, specially in case of mandatory adopters. A decrease in firms' cost of capital and an increase in equity valuations was also noted prior to the adoption date.

Reflecting upon the first time adoption experiences of IFRS adopted by 7000 listed **European** firms in 2005, Hoogendoorn, M. (2006) technical partner(then) at Ernst & Young did one of the earliest reviews in this area. One of his observations stated that time and costs involved in preparing IFRS compliant financial statements were much more than expected. The involvement of auditors was also found very significant and that smaller listed entities lacked expertise. He also argued that using principle based approach, IFRS left scope for individual professional judgment wherein some diversity across regions was unavoidable.

Armstrong, et. al (2010) did a study to examine the stock market reactions to 16 events associated with IFRS adoption in **Europe**. Their findings which are based on both descriptive and empirical evidence reveal a significant positive reaction of investors towards firms which had lower information quality and higher information asymmetry before IFRS adoption. On the other hand, a negative reaction of investors was encountered for firms in code law countries which had weaker enforcement of standards.

Pawsey, Nicholas (2016) did a review of literature on IFRS adoption by publicly listed companies in **Australia**. The findings revealed positive outcomes through improvements in the value relevance of accounting reports post-IFRS adoption, and reductions in the number of firms engaging in earnings management. It also supported the adoption of the IFRS goodwill impairment regime as improving accounting quality. However, some degree of pessimism was found in managers from listed Australian companies towards global diversity in regard to auditing practices and regulatory oversight, the incentives facing financial report preparers, and the education and training of accountants.

Hung and Subramanyam (2007) examined the effects of the adoption of IFRS on the financial statements reported by firms that applied Continental-style accounting systems. Their study is based on a sample of German firms and they find that total assets, book value of equity and the variability of book value and income, are significantly higher under IFRS than under German GAAP. In addition, book value and income are no more value relevant under IFRS and they find weak evidence suggesting that IFRS income exhibits greater conditional conservatism than German GAAP.

CONCLUSION

Based on the theoretical and empirical evidence gathered from the studies and researches conducted across multiple nations, International financial reporting standards without a doubt are going to act as a catalyst in the process of integrating world economy. However, certain reservations are always there when anything new in the economy is introduced. Adoption of IFRS for the first time in Europe called for its cost benefit analysis. Many studies found, that harmonisation brought efficiency to market mechanisms by aiding investors with relevant and highly comparable market information. Some researchers also concluded that adopting IFRS led to increase in FDI inflows. IFRS is also viewed as a means to improve disclosure policies and accounting systems of a nation. However, there were some contradictory opinions relating to impact on accounting quality which said that since accounting quality is a function of the firm's overall institutional setting, IFRS is not going to positively impact accounting quality in countries with conflicting legal and political framework as compared to IFRS. Talking of Indian scenario, not much literature available in Indian context as IFRS is yet to be implemented. The work that has been done in this area discussed its implementation strategies and its overall implication for India. Experts believe that implementing IFRS is going to put India at a better global rank in the world economic forum, provided that India deals with the associated challenges in a time bound manner. Based on investigated literature, major challenges facing India include creating awareness of IFRS among the stakeholders and professionals, amending the existing laws to avoid conflict and shifting to fair value base under IFRS as opposed to historical cost base. Many international reports and studies also found that certain challenges were nation specific for which different nations amended the particular IFRS (carve-out) to suit their convenience. Therefore, IASB needs to constantly modify IFRSs based on the discussions and feedbacks gathered from across boundaries, so that more and more nations are able to implement it uniformly without carve-outs as that defeats the sole purpose of having harmonised accounting standards. In our review of literature, we also identified a few on-going topics of debate under IFRS which were mandatory vs. voluntary adoption, stewardship, fair value accounting, and comparability and convergence issues. No consensus has yet been achieved in all the nations, still the benefits of adopting universally applicable accounting standards are way ahead of its drawbacks.

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